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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 007299

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SUBJECT: NEW ENERGY MINISTER ADDRESSES OIL SUPPLY ISSUES

REF: A. AMMAN 6621

[1](#)B. FLOWERS-SCHEDLBAUER E-MAIL 10/29/03

Classified By: Ambassador Edward W. Gnehm for reasons 1.5 (b) and (d)

[1](#)1. (C) SUMMARY: Newly appointed Jordanian Minister of Energy Azmi Khreisat told the Ambassador on November 5 that Jordan has agreed to purchase three million barrels of Iraqi oil before the end of the year. He expressed optimism about the six-nation power grid initiative and the Egyptian gas pipeline, said that large-scale oil smuggling over the Jordanian-Iraqi border was unlikely, and discussed upcoming electricity sector privatization and projects. END SUMMARY.

OIL SUPPLIES

[1](#)2. (SBU) Upon the Ambassador's questioning, Khreisat elaborated on press reports that the GOJ had reached a deal with the Iraqi State Oil Marketing Organization (SOMO) providing for Iraqi crude oil exports to Jordan. The GOJ has arranged with SOMO to purchase three million barrels of Iraqi oil between now and the end of the year. It will be delivered by tanker to Aqaba in three, one-million-barrel shipments, the first of which is scheduled to arrive in Aqaba November 14. The GOJ will pay SOMO for the oil by letter of credit at an American bank. The oil will be purchased at current market prices (a press statement by the Ministry of Energy Secretary-General gave the price for the first shipment as \$26-27 million dollars). In the long term, the Minister would prefer to receive oil on land by truck, and eventually by pipeline due to limited port capacity. The latter project, begun before the war, has been in suspense since then - the Iraqis are not building toward Jordan from their end, and the Jordanians are not building toward Iraq. Khreisat said that when work on the pipeline resumes, he hopes to be able to turn it over to the private sector. He does not expect the private sector to be interested unless the correct laws are in place in Iraq.

[1](#)3. (SBU) Khreisat noted that the Saudi commitment was to supply free crude (Jordan must pay transportation costs) through the end of the year, though the GOJ is continuing its effort to get an extension. (NOTE: We understand separately that there has been a political commitment through March 2004 that has yet to be translated into a final arrangement. PM Al-Fayez has told the Ambassador he would travel to Saudi Arabia soon in order to try to review the deal for another year.) Khreisat seemed confused about the status of the Kuwaiti and UAE contributions, which he said might have already ended or might continue through the end of the year. (NOTE: The King traveled briefly to Kuwait on Nov. 5, and oil undoubtedly figured in his talks there.)

6-NATION POWER GRID

[1](#)4. (SBU) Khreisat believes the six-nation power grid presents great potential to help fill Iraq's power needs. He says that both Syria and Turkey have substantial extra power to sell and is optimistic about a plan to extend Jordan's power grid to connect with the Iraqi grid at Rutba. (NOTE: Khreisat's assessment of the six-nation power grid's near-term potential is in line with the assessment of the previous Minister Bataineh (ref A), but not with that of his Secretary-General or the electricity sector within his

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ministry (ref B). The latter say that the low-volume nature of existing and proposed connections would make any contribution to Iraqi power made by the six-nation grid marginal at best, at least in the short term.)

NATURAL GAS PIPELINE

[1](#)5. (SBU) Khreisat said that the Egyptian consortium EPEG is still arranging financing for the second phase of the natural gas pipeline, which will run from Aqaba to the power plant at Rihab near the Syrian border. He believes that financing will likely take a few more months to complete, but that the

line should be completed by late 2005 or early 2006. Once the line is complete, the Rihab power plant would switch over to natural gas. He noted that the switchover of the Aqaba power plant to natural gas, which is still incomplete (three of five turbines have switched over with the other two to be switched this month), had left the Zarga refinery producing 1,000 tons of fuel oil per day for which there was no demand in Jordan and which the refinery was exporting.

OIL SMUGGLING

16. (C) The Ambassador raised the reported smuggling of oil by truck from Iraq to Jordan. Khreisat claimed that it was not a big issue from Jordan's perspective. He believes that some small-time smuggling might take place through the border, likely of finished products rather than crude. The Minister recalled that there had been an agreement right after the war to provide Iraq with some limited quantities of gasoline in exchange for crude, but that was long since completed. He noted that there were a few tanker trucks still coming back from Iraq, as the Khawan family had recently imported a shipment of diesel into Iraq through Jordan per contract, but he assumed they are being checked at the border. He raised the possibility of oil being imported into Jordan by Iraqis who had been paid in kind for services, but suggested that if this were the case, CPA would likely have known about it and given approval. He did not mention receiving a letter from SOMO or of any other request for support from the GOI in connection with smuggling allegations.

UPCOMING ENERGY PROJECTS

17. (SBU) The petroleum refinery in Zarga (which Khreisat ran before being appointed Minister) is a real headache for the government of Jordan, Khreisat said. At present, it requires 3,000 tons of diesel per day to run the refinery, all of which is being imported through tendering into an already crowded port of Aqaba. The proposed USD 600-700 million renovation of the refinery should help solve some of these problems, allowing the refinery to produce environmentally-friendly products more efficiently. The financing of this project will be a major hurdle, however.

18. (SBU) The Ministry of Energy is also beginning to issue tenders for the privatization of the electricity sector. Khreisat asked what could be done to increase U.S. investor interest in the sector, and what role USTDA could play in it. Told that USTDA could finance consultants to help the ministry with the privatization process, Khreisat said that U.S.-based consulting firms had already been contracted to help in this way, including Kellogg, Brown, and Root and K&M, which is consulting on the combined-cycle project.

19. (SBU) While the Al Samra independent power project (IPP) in northern Jordan appears dead, the GOJ has begun tendering for a traditionally-financed power project and will be receiving bids next month. The GOJ still plans to tender for another IPP in 2007-8.

COMMENT

110. (C) Khreisat's prior experience in the Ministry of Energy and at the refinery gives him a good working knowledge of the issues that he will confront as minister. His interest in involving American investment and supply in upcoming Jordanian projects should make him a good partner for the Embassy. His interest and involvement in the six-nation power grid and the Iraqi oil purchase deal appears to signal a desire to be just as good a partner for Iraq, in line with the King's strategic direction. The oil-purchase deal between GOJ and SOMO, which will have no effect on the price Jordan pays or on relieving the congestion at Aqaba port, shows this minister's focus on the long-term Jordanian-Iraqi energy relationship.
GNEHM